

**LAFAYETTE NEIGHBORHOODS'
ECONOMIC DEVELOPMENT
CORPORATION
Lafayette, Louisiana**

**Financial Report
Years Ended April 30, 2006 and 2005**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11-8-06

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Darnall, Sikes, Gardes Frederick

(A Corporation of Certified Public Accountants)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lafayette Neighborhoods' Economic
Development Corporation
Lafayette, Louisiana

We have audited the accompanying statements of financial position of the Lafayette Neighborhoods' Economic Development Corporation (LNEDEC) (a nonprofit corporation) as of April 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lafayette Neighborhoods' Economic Development Corporation as of April 30, 2006 and 2005, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 22, 2006 on our consideration of the Lafayette Neighborhoods' Economic Development Corporation's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana
October 23, 2006

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LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Financial Position
April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 308,379	\$ 329,032
Loans receivable (net)	497,459	572,236
Accrued interest receivable	5,343	19,240
Other receivables	<u>7,235</u>	<u>19,775</u>
TOTAL CURRENT ASSETS	<u>\$ 818,416</u>	<u>\$ 940,283</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to affiliated organization	<u>\$ 104,616</u>	<u>\$ 104,400</u>
NET ASSETS		
Permanently restricted	<u>713,800</u>	<u>835,883</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 818,416</u>	<u>\$ 940,283</u>

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Activities
Years Ended April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
PERMANENTLY RESTRICTED NET ASSETS		
Revenue:		
Governmental grants	\$ -	\$ -
Interest:		
Loans	14,101	43,941
Investments	684	675
Other	<u>4,049</u>	<u>3,205</u>
Total support and revenue	<u>18,834</u>	<u>47,821</u>
Expenses:		
Support services -		
Management and general	<u>140,917</u>	<u>101,327</u>
Increase (decrease) in permanently restricted net assets	(122,083)	(53,506)
Net assets, beginning	<u>835,883</u>	<u>889,389</u>
Net assets, ending	<u>\$ 713,800</u>	<u>\$ 835,883</u>

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows
Years Ended April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase/decrease in net assets	\$ (122,083)	\$ (53,506)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in loans receivable	74,777	49,067
Change in other receivables	12,540	37,286
Change in accrued interest receivable	13,897	(10,433)
Change in due from affiliate	-	10,000
Change in due to affiliated organization	<u>216</u>	<u>1,080</u>
Net cash provided (used by) operating activities	<u>(20,653)</u>	<u>33,494</u>
Net increase (decrease) in cash	(20,653)	33,494
CASH AND CASH EQUIVALENTS, beginning of year	<u>329,032</u>	<u>295,538</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 308,379</u>	<u>\$ 329,032</u>

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lafayette Neighborhoods' Economic Development Corporation (LNEDC) is a non-profit corporation organized under the provisions of the Cooperative Economic Development Law of the State of Louisiana. The LNEDC operates as a component unit of the Lafayette Consolidated Government who provides funding to the program.

Nature of Activities

The LNEDC was organized to help alleviate conditions of economic distress in the City of Lafayette's low and moderate-income neighborhoods by stimulating greater private capital investment in these target areas. To accomplish this goal, the LNEDC provides financing to new and expanding small businesses in Lafayette. The organization is exempt from income taxes.

Significant Accounting Policies

A. Loans

Loans are stated at principal amounts outstanding as of the statement of financial position date, less the allowance for possible loan losses.

B. Allowance for Possible Loan Losses

The allowance for possible loan losses is maintained at a level considered adequate by management to absorb potential losses. The allowance is increased by provisions charged to program expenses and reduced by net charge-offs. The Corporation makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, and other relevant factors in determining the adequacy of the allowance.

C. Expenses

Revenue and expenses are recognized on the accrual basis.

D. Statement of Cash Flows

For purposes of the statements of cash flows, the organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 LOANS

Loans receivable are comprised of loans to local business owners in a specific geographical area. These loans were made for working capital, debt refinancing, and fixed asset acquisition. Collateral is comprised of chattel mortgages on business equipment and collateral mortgages on real estate. Interest is accrued on outstanding loans from the date of the last principal payment.

The following summary reflects activities in the loan accounts for the years ending April 30, 2006 and 2005:

	<u>2005</u>	<u>2006</u>
Balance, beginning	\$ 704,337	\$ 604,046
Loans made	258,032	159,504
Payment received	(251,615)	(121,904)
Collection of loans previously written off	15,597	-
Loans written off	<u>(122,305)</u>	<u>(77,258)</u>
Balance, ending	<u>\$ 604,046</u>	<u>\$ 564,388</u>

The following is an analysis of the allowance for loan losses:

	<u>2005</u>	<u>2006</u>
Balance, beginning	\$ 83,034	\$ 31,810
Loans written off	(136,212)	(77,258)
Collection of loans previously written off	15,597	-
Increase in provision for loan losses	<u>69,391</u>	<u>112,377</u>
Balance, ending	<u>\$ 31,810</u>	<u>\$ 66,929</u>

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements

NOTE 3 COMPENSATION OF BOARD OF DIRECTORS

Members of the Board of Directors were not paid per diem or other compensation during the years ended April 30, 2006 and 2005.

NOTE 4 RELATED-PARTY TRANSACTIONS

The Sterling Grove Housing Development, Inc. has the same Board of Directors as LNEEDC. During the year ending April 30, 1992, Sterling Grove Housing Development, Inc. received approval for a maximum \$1,296,300, Department of Housing and Urban Development, Section 202 loan to construct a 36-unit elderly housing complex. LNEEDC is the sponsor of this housing project.

During the year ended April 30, 1999, LNEEDC and the Lafayette City-Parish Consolidated Government (LCPCG) entered into a revised grant agreement. The agreement calls for the LCPCG to provide \$200,000 to LNEEDC to be used for loans and an additional \$17,000 to be used for administrative purposes. Additionally, this agreement allows LNEEDC to retain 100% of the annual interest earned on loans and deposits to be used for administrative costs which are in direct support of CDBG, eligible economic development activities.

NOTE 5 CONCENTRATION OF CREDIT RISK

The Organization provides financing to a diversified group of businesses located primarily in the Lafayette area. This assistance is provided based on an evaluation of each customer's financial condition, business knowledge, sufficiency of collateral, etc. Credit losses, upon occurrence, are provided for within the financial statements.

NOTE 6 UNINSURED DEPOSITS

LNEEDC maintains its cash deposits in high quality financial institutions. Cash balances may, at times, exceed FDIC insurance coverage. However, LNEEDC has securities pledged to cover any cash balances not insured by FDIC insurance. At April 30, 2006 and April 30, 2005, the market value of the pledged securities plus the federal deposit insurance equal or exceeded the amount on deposit with the bank.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements

NOTE 7 DUE TO AFFILIATED ORGANIZATION

During the year ended April 30, 1997, LNEDEC entered into a joint venture with the Downtown Development Authority (DDA) to establish a low interest loan fund administered by LNEDEC to assist with exterior renovations of commercial buildings in the downtown area. LNEDEC contributed \$35,000 and DDA contributed \$100,000. These funds are restricted for loan purposes only. Upon dissolution of the Facade Grant Program, the \$100,000 will be paid to DDA as well as any interest earned on loans made, prorated between LNEDEC and DDA. Included in the balance sheet under the captions "Other Receivables" and "Due to Affiliated Organization," are receivables and payables relating to this program.

NOTE 8 REAL ESTATE TRANSACTION

During the year ended April 30, 1994, the Organization was the recipient of a donation of real estate from the State of Louisiana. LNEDEC subsequently sold the property and received \$50,000 cash and a 15-year, six-percent promissory note for \$1,198,000 (which is subordinated to a construction mortgage obtained for renovations). The intent of the parties is that the buyer will pay accrued interest annually to the extent of surplus cash from operation of the property (after all operating expenses, debt service obligations, distributions required to be made to the purchaser of limited partnership interests and reasonable reserves). Any unpaid interest shall be accrued and deferred; but not compounded. Upon maturity of the note (March 1, 2009) LNEDEC will receive a donation of the property as payment of the outstanding balance of its mortgage and accrued interest receivable. In accordance with FASB 66, Accounting for Sales of Real Estate, recognition of the profit on the sale of property should be reported when (1) the collectibility of the sale price is reasonably assured and (2) the earnings process is virtually complete. Since collectibility of the entire sales price is questionable, gain on the sale of property has been calculated based on the difference between LNEDEC's basis in the property, the fair market value at the date of donation (\$45,900), and the cash payment received (\$50,000). For the years ended April 30, 2006 and 2005, no payments were received.

INTERNAL CONTROL AND COMPLIANCE



Darnall, Sikes, Gardes Frederick.

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Independent Auditor's Report on Compliance and On Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

The Board of Directors
Lafayette Neighborhoods' Economic
Development Corporation
Lafayette, Louisiana

We have audited the financial statements of the Lafayette Neighborhoods' Economic Development Corporation (LNEDC) (a nonprofit corporation), as of and for the year ended April 30, 2006, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the LNEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings and questioned costs as item 06-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LNEDC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect LNEDC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-2.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above as 06-2 is a material weakness.

This report is intended for the information of the Board of Directors, management, others within the organization and is not intended to be and should not be used by anyone other than those specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Dannall, Siken, Gaudin & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana
October 23, 2006

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Summary Schedule of Prior Year Findings
Year Ended April 30, 2006

- 05-1 Finding: Incomplete Loan Files
 Status: This finding is unresolved. See current year finding 06-1.
- 05-2 Finding: Inadequate Segregation of Accounting Functions
 Status: This finding is unresolved. See current year finding 06-2.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Schedule of Findings and Questioned Costs
Year Ended April 30, 2006

Part 1: Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report - Financial Statements

An unqualified opinion has been issued on the Lafayette Neighborhoods' Economic Development Corporation's (LNEDC) financial statements as of and for the year ended April 30, 2006.

Reportable Conditions - Financial Reporting

One reportable condition in internal control over financial reporting was disclosed during the audit of the financial statements, and is shown as 06-2 in Part 2 and is considered a material weakness.

Material Noncompliance - Financial Reporting

One material instance of non-compliance was disclosed during the audit of the financial statements, and is shown as item 06-1 in Part 2.

FEDERAL AWARDS

This section is not applicable for the fiscal year ended April 30, 2006.

Part 2: Findings Relating to an Audit in Accordance with Government Auditing Standards

06-1 Finding: Incomplete Loan Files

LNEDC has a standard checklist for loans which details the documentation required on each loan. This checklist is completed annually; however, in our review of the loan files we found that various required information was not on file for some borrowers.

During the course of our audit, we noted that required submissions and reports required to be filed with the Lafayette Consolidated Government had not been filed timely or in some cases not filed at all. We also noted that LNEDC is not requiring a bank refusal letter from potential loan recipients. This is a requirement of CDBG and therefore should be required.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Schedule of Findings and Questioned Costs
Year Ended April 30, 2006

Recommendation:

We recommend the LNEDEC perform a thorough examination of the outstanding loan files and determine if the required documentation is on file. For those loans which lack specific documentation, LNEDEC should obtain the necessary information; also, LNEDEC should review the loan files subsequent to issuance, preferably annually and also perform monitoring procedures on the loan's anniversary date, to ensure that documentation is current for all information required. Additionally, required reports should be filed timely with the Lafayette Consolidated Government as required.

06-2 Finding: Inadequate Segregation of Accounting Functions

Due to the small number of personnel, LNEDEC did not have adequate segregation of functions within the accounting system.

Recommendation:

Based on the size of the operation and the cost-benefit of additional accounting personnel, it may not be feasible to achieve complete segregation of duties.

Part 3: Findings and Questioned Costs Relating to Federal Programs

At April 30, 2006, the LNEDEC did not meet the requirements to have a single audit in accordance with OMB Circular A-133; therefore, this section is not applicable.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Management's Corrective Action Plan for Current Year Findings
Year Ended April 30, 2006

Response to 06-1:

Incomplete Loan Files

LNEDC has plans to either conduct loan reviews utilizing in-house resources or by contracting the services of a consultant to review existing and future loans for required documentation. Annual monitoring will be performed and reports will be submitted to LNEDC and the Lafayette Consolidated Government.

Response to 06-2:

Inadequate Segregation of Accounting Functions

No response is considered necessary.